

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON NOVEMBER 14 AND 15, 2005

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the regular meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on November 14 and 15, 2005 at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Douglas R. Fahl, Chairman
Jay Fisette, Vice Chairman
Jody M. Wagner
John P. McCann
Edward L. McCoy
Charles McConnell
William C. Shelton
Gerald W. Hopkins
Terri M. Ceaser
Yvonne T. Allmond

COMMISSIONER ABSENT

Jack Loeb, Jr.

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Arthur N. Bowen, Managing Director of Finance and Administration
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Tammy A. Tyler, Strategic Development Leader
Brian C. Matt, Public Relations Manager
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Paul M. Brennan, Deputy General Counsel
J. Michael Hawkins, Director of Community Housing
Llewellyn C. Anderson, Business Planning Analyst

Robert Halloran, Marketing Director
Yvonne Farmer, Marketing Specialist
Janet Butler, Acting Director of Information Technology
Andy Heatwole, Ripley Heatwole
T. K. Somanath, Better Housing Coalition
Graham Driver, Virginia CDC
Mark Silverwood, Silverwood and Associates
Corrine Sheridan, Boston Capital
Brenda Champy, Boston Capital

Chairman Fahl called the meeting of the Committee of the Whole to order at 2:10 p.m. on November 14, 2005. The Commissioners listed above as present at the meeting were present at that time, except Vice Chairman Fisette and Commissioners Wagner and McCann who joined the meeting in progress as noted below and except Commissioner McCoy who was not present during the meeting of the Committee.

A panel composed of Mr. Heathole, Mr. Somanath, Mr. Driver, Mr. Silverwood, Ms. Sheridan and Ms. Champy discussed the proposed amendment to the Authority's 2006 Qualified Allocation Plan for the federal low-income housing tax credits that would require a portion of the units in developments of more than 100 units to be available for persons and families who are not low income. The panel commented on the adverse financial consequences to the owner (including the loss of equity from the syndication of the limited partnership interests), the concerns of the investors about the increased risk for such mixed income developments, and the complexity and additional costs to monitor compliance with the federal statutory and regulatory requirements. During these presentations, Commissioner Wagner joined the meeting. The Commissioners and the panel discussed the impact of tax credit assisted developments on local communities and the methods for creating economically integrated communities. During this discussion, Commissioner McCann joined the meeting.

Mr. Hill presented a report on the Authority's marketing and advertising activities. At this point, Vice Chairman Fisette joined the meeting. During this presentation, the Commissioners and staff discussed the purposes for marketing and advertising by the Authority, the marketing functions and strategies of the Authority, the recent marketing accomplishments of the Authority, the results of the Authority's recent radio advertising campaign, and the recommended future marketing and advertising activities for fiscal year 2006, including proposed additional funding of approximately \$400,000 for radio advertising. It was the consensus of the Commissioners that the staff proceed with the proposed radio advertising, at an estimated cost not to exceed \$400,000, for the second half of fiscal year 2006.

Ms. Dewey reported on the status of the Authority's strategic plan, including the critical issues for fiscal year 2007 identified by the staff and the process for modifying the strategic plan for fiscal year 2007.

Ms. Dewey next reported on the recent restructuring of the Authority's technology functions and introduced Ms. Butler to the Commissioners.

Mr. Chandler discussed with the Commissioners each of the proposed changes to the Authority's 2006 Qualified Allocation Plan for the federal low-income housing tax credits. In the discussion of the proposed change to increase the number of points from 10 to 20 for developments located within 1/2 of a mile of a commuter rail stop or within 1/4 of a mile of an existing bus stop, it was the consensus of the Commissioners that the proposed change be revised to apply only to developments being ranked in the Northern Virginia pool and that this revised change be reviewed and evaluated by the Authority next year. Following this discussion, Ms. Dewey advised the Commissioners as to the status of The Villages at Garst Creek.

There being no further business, the meeting of the Committee was adjourned at approximately 6:10 p.m. on November 14, 2005.

Chairman Fahl called the regular meeting of the Board of Commissioners to order at approximately 11:25 a.m. on November 15, 2005. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

On motion duly made and seconded, the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on September 13 and 14, 2005 were approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Mr. Bowen presented a report on the Authority's unaudited financial statements for the period ended August 31, 2005. In this report, Mr. Bowen noted that the changes in employee benefits, the buy-down of sick leave balances, and the restructuring of the Authority's technology functions may have an impact on the fiscal year 2006 budget. Mr. Bowen then advised the Commissioners as to the status of the purchase of the property at 4224 Cox Road in Henrico County, including the reduction in the purchase price by approximately \$60,000 and the receipt of an appraisal indicating appraised values of \$4,060,000 on an income basis and \$4,200,000 on a market basis.

On motion duly made and seconded, the resolution entitled "Amendment to Resolution Establishing Regular and Annual Meeting Dates of the Board of Commissioners" dated November 15, 2005, in the form attached hereto was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Chairman Fahl reported that the Committee of the Whole had received and discussed (i) comments from a panel of developers and syndicators on the proposed amendment to the Authority's 2006 Qualified Allocation Plan for the federal low-income

housing tax credits that would require a portion of the units in developments of more than 100 units to be available for persons and families who are not low income, (ii) a report on the Authority's marketing and advertising activities, (iii) a report on the status of the Authority's strategic plan, (iv) a report on the recent restructuring of the Authority's technology functions, and (v) the proposed changes to the Authority's 2006 Qualified Allocation Plan for the federal low-income housing tax credits.

Commissioner McConnell, on behalf of the Programs Committee, reported that the Committee had reviewed and discussed the Authority's proposed 2006 Qualified Allocation Plan for the federal low-income housing tax credits and recommended approval of such proposed Plan as amended to include a provision that would increase the number of points from 10 to 20 for developments which are located within 1/2 of a mile of a commuter rail stop or within 1/4 of a mile of an existing bus stop if, in the case of developments located in the geographical area for the Northern Virginia pool, such developments are being ranked against other developments in the Northern Virginia pool. Vice Chairman Fiset moved approval of the resolution entitled "Resolution Amending and Restating the Plan of the Virginia Housing Development Authority for the Allocation of Low-Income Housing Tax Credits Including Rules and Regulations" dated November 15, 2005 in the form attached hereto, including the provision so recommended. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner McConnell next reported that the Committee had reviewed and discussed staff reports on the following matters: the REACH *Virginia* program and the Authority's new publication entitled "The REACH Report"; the use of the housing choice vouchers for victims of Hurricane Katrina; and homeownership and multi-family bi-monthly loan production and delinquencies. Commissioner McConnell reported that the Committee had reviewed and considered, and recommended approval of, proposed amendments to the Authority's Rules and Regulations for Administration of Rent Reduction Tax Credits that would implement the legislation enacted in the 2005 Session of the General Assembly extending the state rent reduction tax credits through 2010. On motion duly made and seconded, the resolution entitled "Resolution Amending Rules and Regulations for Administration of Rent Reduction Tax Credits" dated November 15, 2005, in the form attached hereto, was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Commissioner McCann, on behalf of the Audit/Operations Committee, reported that the Committee had received and discussed a report presented by KPMG LLP on its annual audit of the Authority and that KPMG LLP had issued a clean audit report and did not report any material management issues. Commissioner McCann also reported that the Committee had discussed the provisions of the Sarbanes-Oxley Act, that for fiscal year 2007 the Committee would adopt a charter setting forth its role and responsibilities and would review the Authority's financial statements, and that the staff would be making recommendations to the Committee on the implementation of best practices to comply with the pertinent provisions in the Sarbanes-Oxley Act for management oversight and controls. Commissioner McCann next reported that the Committee had reviewed and discussed the request for proposal and selection process for the Authority's

external auditor and that the Authority would seek offers from other qualified accounting firms and would request services for implementation of best practices under the Sarbanes-Oxley Act. Commissioner McCann advised the Commissioners that the Committee had reviewed and discussed the staff's memorandum on the salient features of the Authority's proposed Rental Housing Bonds, 2005 Series J-Taxable and K-AMT, and Commonwealth Mortgage Bonds, 2005 Series F-AMT and G and that the Committee had reviewed and recommended approval of the proposed series resolution authorizing the sale and issuance of Commonwealth Mortgage Bonds in a principal amount not to exceed \$800 million. Mr. McKellar then advised the Commissioners as to the terms of a proposed series resolution. He reviewed the provisions which (i) authorized the sale and delivery of Commonwealth Mortgage Bonds in an aggregate amount not to exceed \$800 million to such purchasers or underwriters, at such purchase prices and on such terms and conditions as shall be set forth in or determined pursuant to one or more written determinations by an Authorized Officer of the Authority and in one or more purchase contracts, including notices of sale, in accordance with the series resolution; (ii) provided for the sale of the Bonds not later than May 31, 2006, (iii) established limitations and restrictions with respect to such written determinations; (iv) authorized the execution and delivery of purchase contracts and other necessary or appropriate agreements, instruments, documents and certificates; (v) specified that the portion of the Debt Service Reserve Fund Requirement allocable to each series of bonds to be issued pursuant to the series resolution shall be \$0 or such higher amount as may be set forth in or determined pursuant to the applicable written determinations; and (vi) authorized the distribution of one or more preliminary and final official statements in substantially the forms presented at the meeting of the Commissioners held on March 15, 2005. On motion duly made and seconded, the resolution entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" dated November 15, 2005, in the form attached hereto was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Ms. Dewey presented her report of operations in which she advised the Commissioners as to the following matters: the Board retreat had been scheduled for March 19-21, 2006 at the University of Virginia Darden Business School; the Virginia Housing Commission was considering legislation to amend the state low-income housing tax credit program that would require the tax credits to be based upon the land costs for the development and that would provide for the Authority to administer the program; and Commissioner Wagner had been elected President of the National Association of State Treasurers.

Chairman Fahl then presented Mr. Chandler with a resolution in recognition of his 30 years of service. On motion duly made and seconded, the resolution entitled "Resolution in Recognition and Appreciation of Thirty Years of Service by James M. Chandler" dated November 15, 2005, in the form attached hereto was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

There being no further business, the meeting was adjourned at approximately 12:17 p.m.

Douglas R. Fahl, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE ON NOVEMBER 15, 2005

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on November 15, 2005, at 601 South Belvidere Street, Richmond, Virginia.

COMMITTEE MEMBERS PRESENT:

Charles McConnell, Committee Chairman
William C. Shelton
Jay Fisette
Terri M. Ceaser
Gerald W. Hopkins

OTHER COMMISSIONERS PRESENT:

Douglas R. Fahl
Yvonne T. Allmond
Jody M. Wagner
John P. McCann
Edward L. McCoy

COMMITTEE MEMBER ABSENT:

Jack Loeb, Jr.

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Michele G. Watson, Director of Homeownership Development Programs
John F. Hastings, Director of Multi-Family Development Programs
Tammy A. Tyler, Strategic Development Leader
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Sharon B. Fairburn, Housing Choice Voucher Program Director
J. Michael Hawkins, Director of Community Housing
Paul M. Brennan, Deputy General Counsel
Llewellyn C. Anderson, Strategic Planner
Brian Matt, Public Relations Manager

The meeting of the Committee was called to order by Committee Chairman McConnell at approximately 9:11 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Fisette who left the meeting of the Committee in progress as noted below.

Chairmen McConnell opened the floor for public comments on the proposed changes to the 2006 Qualified Allocation Plan for the Federal Low Income Housing Tax Credit program. There were no comments offered.

The Committee then considered the proposed changes to the 2006 Qualified Allocation Plan. Commissioner Fisette moved that the Committee recommend approval of the resolution entitled "Resolution Amending and Restating the Plan of the Virginia Housing Development Authority for the Allocation of Low-Income Housing Tax Credits Including Rules and Regulations," as amended to increase the number of points from 10 to 20 for developments which are located within 1/2 of a mile of a commuter rail stop or within 1/4 of a mile of an existing bus stop if, in the case of developments located in the geographical area for the Northern Virginia pool, such developments are being ranked against other developments in the Northern Virginia pool. This motion was seconded by Commissioner Hopkins and was approved by the affirmative vote of each Commissioner noted above as present.

Mr. Hawkins presented a report on the REACH *Virginia* program and the Authority's new publication entitled "The REACH Report" and an update on the Authority's response to Hurricane Katrina victims. Following these comments, Commissioners Fahl, Wagner, McCann, McCoy and Allmond left the meeting.

On motion duly made and seconded, the minutes of the meeting of the Committee held on September 14, 2005 were approved by the affirmative vote of each of the members of the Committee noted above as present.

Ms. Fairburn provided an update on assistance provided under the Housing Choice Voucher Program for Hurricane Katrina victims currently residing in Virginia. Ms. Fairburn advised the Commissioners that 156 housing choice vouchers had been issued to Hurricane Katrina victims and that the families who had been issued 54 of those vouchers had leased housing units. A discussion then ensued regarding the availability of units in Virginia for housing choice vouchers.

Ms. Watson reviewed the homeownership bi-monthly production report commenting that there exists a better balance of production among loan products than experienced in the previous two months and the percent of loan production to the Asian population was increasing. In addition, Ms. Watson noted that total loan production was 68% greater than same period last year. After this report, Commissioner Fisette left the meeting. Mr. Hastings reviewed the multi-family bi-monthly production report noting that 22 developments had received Authority financing with 12 being subsidized by the Authority's REACH money.

Mr. Dolce presented reports on the status of delinquencies and foreclosures in the homeownership and multi-family loan servicing portfolios. Mr. Dolce noted that, for the

month of September, homeownership delinquencies decreased while multi-family experienced a slight increase.

Mr. McKellar presented proposed amendments to the Authority's Rules and Regulations for Administration of Rent Reduction Tax Credits that would implement the legislation enacted in the 2005 Session of the General Assembly extending the state rent reduction tax credits through 2010. Commissioner Hopkins moved that the Committee recommend approval of the resolution entitled "Resolution Amending Rules and Regulations for Administration of Rent Reduction Tax Credits" dated November 15, 2005. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each Commissioner then present at the meeting.

There being no further business, the meeting was adjourned at 10:33 a.m.

Minutes of the Meeting of the Audit/Operations Committee Held on November 15, 2005

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on November 15, 2005 at the offices of the Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, Virginia.

**Committee
Members
Present**

John McCann, Chairman
Edward L. McCoy
Jody Wagner
Yvonne Allmond
Douglas Fahl

Others Present

Susan F. Dewey, Executive Director
Arthur N. Bowen, III, Managing Director of Finance & Administration
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Gary Murray, Controller
Pat Carey, Finance Director
Michelle S. Edmonds, Sr. Executive Assistant
Kevin Strecker, KPMG
Donna Craver, KPMG

**Meeting Called
to Order**

The meeting was called to order at 9:30 a.m. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting with the exception of Commissioner McCoy who joined the meeting in progress at 10:12 a.m.

**External Audit
Exit
Conference**

Kevin Strecker and Donna Craver of KPMG, VHDA's external auditors, reported the results of their recently completed audit of VHDA's financial statements for the fiscal year ending June 30, 2005. The reports presented by KPMG included their management letter and single audit report, which indicated that they noted no matters involving internal control and its operation that were considered to be material weaknesses.

**Sarbanes-Oxley
Act (SOX)
Presentation**

The General Auditor reported that SOX applies to organizations registered by the SCC and does not yet apply to organizations such as VHDA, although SOX equivalent mandates for the public sector are anticipated. The General Auditor indicated that beginning the process of implementing the provisions of SOX before they become mandated will allow VHDA to use a slower more methodical approach that ultimately could result in the avoidance of resource drains and high implementation costs.

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**Sarbanes-Oxley
Act (SOX)**

Presentation
(cont'd)

The General Auditor then reported that the Act has three primary areas of focus:

1. **Audit Committee:** The law establishes certain responsibilities of the Audit Committee and addresses appropriate committee makeup.
2. **Management:** The law establishes management responsibilities regarding disclosures to investors and oversight of the system of internal control.
3. **External Auditors:** The law places limitations on the type of work, other than the audit itself, a company's external auditor can perform for their client and establishes requirements for attesting to the effectiveness of the internal control structure.

The General Auditor summarized the general provisions of the Act discussed his recommendations regarding the timing of the implementation of those provisions considered to be best practice for an organization such as VHDA. The General Auditor reported that most of the provisions of the Act can be implemented fairly quickly by simply adopting them as policy. However, sections 302 and 404 of the Act will require more extensive work to implement and the General Auditor recommended a slower more measured approach for the implementation of these sections as their implementation will likely require the most time and resources. The General Auditor addressed certain best practices generally used to comply with sections 302 and 404 of the Act, including the use of the COSO Control Framework. The General Auditor discussed this framework in detail and also discussed the risk and control model used by internal audit to ensure compliance with the framework. The General Auditor recommended the use of this model by line and staff management to assist in the implementation of the control assessment requirements addressed in section 404 of the law. The General Auditor referred to the risk model as a beginning rather than an end as he acknowledged that the law requires significant other work to be performed to be in full compliance with the control assessment requirements of section 404. Mr. McCann suggested that the risk and control model used by Audit may be too broad as it addresses all controls rather than just accounting controls, which are the focus of SOX. In addition, Commissioner McCann indicated that VHDA may want to consider establishing a separate audit committee as a subset of the Audit/Operations Committee to deal with SOX issues. Commissioner McCann also indicated that he felt that SOX should be an agenda item at the March Board and Staff Retreat.

**External
Auditor RFP**

The General Auditor presented for discussion a proposed timeline and analysis methodology for the external auditor RFP process and a draft RFP document. Commissioner McCann indicated his desire to have at least two Audit/Operations Committee members actively participate in the process to select a new auditor and Mr. McCann suggested that Commissioner Allmond serve with him in that capacity.

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Audit/Operations Committee Minutes
November 15, 2005

**Salient
Features**

Art Bowen and Pat Carey presented the salient features of an upcoming Rental Housing Bond and Commonwealth Mortgage Bond issues. The Rental Housing Bond issue will utilize taxable bond proceeds, totaling up to \$60 million, and is expected to be rated Aa1/AA+ by Moody's and Standard & Poor's, respectively. The issue is expected to carry standard provisions for a VHDA Rental Housing Bond issue.

The Commonwealth Mortgage Bond issue will be structured like a line of credit and the maximum amount of advances cannot exceed \$800 million and the maximum amount outstanding cannot exceed \$400 million. The initial advance is not expected to exceed \$250 million. This issue is expected to be rated Aaa/VMIG-1 and AAA/A1+ by Moody's and Standard & Poor's, respectively and will be privately placed with Morgan Keegan.

**Series
Resolution**

Mr. Bowen presented the resolution entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds." This resolution will authorize the issuance and sale of an additional \$800 million of the Authority's single family bonds through May 31, 2006, including the "line of credit" bonds described in the salient features memorandum. A motion to recommend approval by the Board of the above named resolution was made by Commissioner Fahl and seconded by Commissioner McCoy. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Adjournment

There being no further business, Commissioner McCann adjourned the meeting at 11:12 a.m.

Arthur N. Bowen, III
Managing Director of Finance &
Administration

John P. McCann
Chairman